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SUBJECT: VIETNAM: SNAPSHOT OF RECENT ECONOMIC EVENTS

1. This cable describes economic events in Hanoi during October and early November 2004.

Financial Sector Donor Working Meeting  
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2. The Financial Sector Donor Working Group met in Hanoi on October 18 to discuss donor projects in the financial sector and the key areas of reform that should be focused on in the World Bank's next Poverty Reduction Support Credit (PRSC) 4. The World Bank hosted the meeting with participation by the State Bank of Vietnam (SBV) and representatives from 15 donor organizations and donor-funded projects. (Note: The goals of the PRSCs are speeding up economic growth and poverty-reduction through promoting competition, accelerating state-owned enterprise and banking reform, and improving transparency and accountability in SOEs and in the banking sector. The most recent in the series of credits, PRSC 3, was signed on July 8, 2004 in the amount of US\$100 million. However, due to the persistently slow pace of state-owned enterprise and banking sector reforms, the United States abstained on the third Poverty Reduction and Support Credit for Vietnam. The PRSC 4 is currently under development with a tentative timeline proposing a draft program by February 2005 and the presentation to the World Bank Board in June 2005. End Note.)

3. Representatives of the World Bank, the European Commission, USAID, IMF, Agence Francaise de Developpement (AFD), and the Canadian International Development Agency (CIDA) shared highlights of their specific ongoing assistance projects in Vietnam. They also identified proposed areas for future assistance, including assistance in the audit and restructuring of the State Owned Commercial Banks (SOCBs), strengthening of banking supervision, enhancement of the corporate governance and regulatory framework for banking, and other areas of Vietnam's capital market development. Donors expressed concern that there is a lack of strategic focus guiding the large volume of assistance in the banking sector. To address this concern, the Donor Working Group discussed ways in which the PRSC 4 could be used to help focus donor assistance and advance the financial sector reform agenda. The Donor Working Group also suggested two additional steps for advancing financial sector reforms: 1) encouraging relevant agencies such as the Ministry of Finance (MoF) and the State Securities Commission (SSC) to take a leadership role and participate more actively in financial sector reform issues; and 2) holding a donor meeting led by the State Bank of Vietnam (SBV) on the SBV's reform agenda and its immediate assistance needs in November and then holding more regular sector work group meetings thereafter.

Oil Discovery off Northern Coast  
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4. American Technologies Inc Petroleum (ATIP), announced October 20 that initial drilling in the Yen Tu-1X well about 70km off the coast of Hai Phong had found oil and gas. ATI (an American company also invested in aquaculture and eco-tourism ventures in Vietnam) is in a partnership with Petronas Carigali (Malaysia), Oil and Gas Investment and Development Company (PetroVietnam) and Singapore Petroleum (Singapore) to explore blocks 102 and 106 in the Gulf of Tonkin. Press reports indicate Petronas has a fifty percent stake in the project, ATI and PetroVietnam each have twenty percent and Singapore Petroleum has ten percent. To date, the partnership has spent about \$20 million and estimated it would need to spend another \$100 million before commercial activities could begin. According to ATI, the company's oil and gas and geology experts have estimated that these fields could contain 722 million barrels of recoverable oil and 40 billion cubic meters of gas in the wells.

5. However, certain issues cast some doubt on the validity of this announcement. According to subsequent news articles, an official from Petronas, one of ATIP's partners, has said that Petronas believes the recoverable reserves may only be about seven to ten million barrels. The Petronas

official claims that Petronas found some oil in the well. However, when Petronas attempted to drill deeper, it encountered a large amount of poisonous hydrogen sulfide gas, which prompted the company to abandon the well. In a meeting with the Ambassador on October 22, a ConocoPhillips executive resident in Vietnam indicated that initial petroleum finds in Vietnam's northern waters had contained significant Carbon Dioxide (CO2) levels, as high as 80 percent. At this level of CO2 contamination the commercial viability of these reserves could be affected. Additionally, throughout the press conference on October 20, ATIP General Director Huu Dinh, repeatedly requested that the media "ignore the rumors" about the discovery and focus on the "facts" presented by ATIP. Huu Dinh is reportedly on the "verge of bankruptcy" in Vietnam. Several people who attended the press conference speculated the announcement might have been an attempt to attract other investors to a questionable venture.

#### USVTC Hosts ICSID General Council

16. Under USAID's program to assist GVN in implementing the U.S.-Vietnam Bilateral Trade Agreement (BTA) and Vietnam's efforts to join the WTO, the U.S.-Vietnam Trade Council (USVTC) and the Ministry of Planning and Investment (MPI) hosted a visit of Gonzalo Flores, Senior counsel of the International Centre for Settlement of Investment Disputes (ICSID), to Hanoi October 26-29. USVTC and MPI organized a workshop on ICSID for officials from a number of agencies including MPI, the Ministry of Justice, the Ministry of Trade, the Office of Government, and the National Assembly. The workshop provided a forum for Vietnamese legal experts to learn more about ICSID and to consider the impact ICSID membership will have on Vietnam. During the seminar, Flores stressed that because of its commitments in the BTA (as well as a number of bilateral investment agreements with other countries), Vietnam has consented to arbitration at the ICSID and investment dispute cases may already be referred to ICSID for dispute settlement. (Note: The investment chapter of the BTA (Chapter IV) states that nationals or companies of either the United States or Vietnam may submit an investment dispute to ICSID for settlement by binding arbitration. Until Vietnam becomes a party to ICSID, settlement would be done through ICSID's Additional Facility. End Note.) Besides the seminar, Flores met with officials at the MPI, MOJ and OOG to discuss ICSID accession, met with officials of the Supreme People's Court to discuss enforcement of ICSID arbitration awards and spoke at an Amcham luncheon.

#### Policy Dialogue on Services Sector

17. On October 26, in Hanoi, the Ministry of Planning and Investment (MPI), in cooperation with the UNDP, organized a policy dialogue seminar on the challenges and approaches to liberalization of Vietnam's services sector. The seminar was held under the framework of the UNDP's technical assistance (TA) project "Capacity Strengthening to Manage and Promote Trade in Services in Vietnam in the Context of Integration." Senior foreign government officials and consultants from Malaysia, India, Australia, Canada and Brazil participated in the seminar, described their respective countries' experiences with services liberalization and making recommendations for Vietnam. Representatives from the Vietnam's General Statistics Office (GSO) and other local economic experts pointed out that GVN statistics on the services sector do not comply with the WTO's classification of services sectors and sub-sectors and called for donor assistance in filling this gap.

18. Officials from the Ministry of Planning and Investment (MPI) stressed the need for a national strategy for developing the services sector. MPI officials also noted that to attract additional foreign direct investment in the services sector, the GVN should: 1) enhance transparency of legislation and policies; 2) simplify licensing procedures for FDI projects especially in the services sector; and 3) remove the 30 percent minimum capital contribution requirement by foreign investors in joint venture companies in some sectors. However, MPI officials also stressed that the GVN needs to maintain the ceiling on foreign ownership in some particularly important services projects. A Canadian UNDP consultant cited telecom, IT services, education and training, and financial services as key sectors for development and liberalization. Some foreign experts said that Vietnam should be cautious in making services commitments and that the GVN should consider what the most appropriate balance between government and private participation would be in the various services sectors. According to foreign experts, the GVN should also consider the possible impact of such commitments on the domestic market and on social and economic growth. A representative from the Prime Minister's Working Group on implementing the Enterprise Law commented that Vietnam's domestic services

market should be open to investment from domestic private enterprises before they are open for foreign investment.

#### Vietnam Literary Copyright Center Established

19. On November 2, The Vietnam Writers' Association (VWA) hosted a ceremony in Hanoi to announce the establishment of the Vietnam Literary Copyright Center (VLCC). The VLCC is a non-governmental, non-profit organization under the management of the VWA, which the Ministry of Home Affairs established in August 2004. The stated functions of the VLCC include: executing contracts on copyright transfer between the Center and authors; settling disputes among members; coordinating with international organizations on the protection of copyrights; and disseminating the text of laws, regulations and international conventions on literary copyright issues to its members, other writers and the general public. At present, about 100 Vietnamese writers have signed contracts with the VLCC. The VLCC has asked the William Joiner Center to act as an intermediary between the VWA and American writers, whose books are published by the VWA's publishing house in Vietnam. Embassy Hanoi's Public Affairs is providing a USD500 grant to the Center to support copyright protection.

#### New Insurance Regulations

10. On October 19, the Ministry of Finance issued two new insurance circulars (98/2004/TT-BTC and 99/2004/TT-BTC), updating and replacing two earlier circulars, drafted with Asian Development Bank technical assistance. These circulars serve as implementing regulations for the Insurance Law (April 2001) and subsequent Government Decrees on the insurance sector (Decree 42/2001/ND-CP and 43/2001ND-CP from August 2001) in Vietnam. The local representative of a U.S. insurance company (which has a representative office in Vietnam but is still awaiting a license to operate), commented that these circulars include new and more specific provisions on product approval, pricing assumptions and formulas, hiring of appointed actuaries, the wording of policies, sales illustrations, contracting, agency supervision and profit sharing rations. Unofficial translations of the circulars have been emailed to EAP/BCLTV.

MARINE